

## THE TRADE IN PETROLEUM PRODUCTS AND ITS PROSPECTS

Co-operative Efforts in a Major Industry

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CO-OPERATIVE petroleum policy is inspired by the very same leading principles which have moved co-operators to join hands in so many other human adventures to inspire economic life with a "community service" ideal: to put the world's abundance of petroleum products to use for all consumers on a non-profit basis. Petroleum only differs from other products in which the co-operative movement has made great strides to improve conditions of production and distribution because it comprises a relatively new range of products, is in rapidly increasing demand, and because the industry is dominated by a small number of giant concerns which wield enormous economic and, indirectly, political power.

Without oil the world to-day would be paralysed. The combines could not harvest the rich fruits of the Middle-Western plains, major industries would come to a standstill, transport and communications would be disrupted. This dependence on oil for our industrialised world has added tremendously to the economic significance of oil resources, so much so that the lack of access to oil means *poverty*, command of oil *power*.

Power, indeed! The history of oil is a scramble for power, both at company and state level. The Persian oil crisis is the latest example and it raises all the questions, all the problems which the co-operative movement has sought to answer.

Here is a country that produces no less than six per cent of the world's crude oil and has 11 per cent of the petroleum reserves of the world. Here almost three-quarters of a million barrels of crude oil are produced every day. More than two-thirds can be turned into finished products at the gigantic Abadan refinery. But Persia has neither the means nor the technical ability to develop its own natural wealth. On what basis should it be developed?

Is it enough that foreign companies secure leases, and bargaining powers decide what royalties are to be given to the country or landowners?

Is it enough to nationalise the industry and reverse the rôles of commanders of oil and bidders for its supplies?

Is it enough that the consumers should wait at the wrong end of the chain to see at what price they will be allowed to come in, and must take it or leave it?

Or is there something basically wrong in the principles on which the raw materials of the world are produced, traded and distributed; materials which we all need and which we should all use to our mutual advantage: a rising standard of living?

Oil, which has one of the most troubled histories of all commodities seems to prove the latter.

It is not enough to offer to double oil royalties to Persia, like Sir William Fraser, the chairman of the Anglo-Iranian Oil Company, did two years ago. From a British Labour Government which has strung such high ideals to its flagpole, the Persians had expected more; at least participation in the management of their only major source of wealth. Consequently, the royalty proposal was met by a wave of resentment, and anti-British pressure was so strong that the Persian parliament declined the offer. One may not think much of the Persian parliamentary system, doubt the strength of democracy there, and challenge its integrity. But it is likely that the young Shah's division of his estates, the beginnings of land reform in nearby Iraq, and the success of Israel, far beyond the fertile crescent and the Syrian desert, in working out her own destiny, have caused deep stirrings within the people of Persia and are more potent factors leading to nationalisation than is generally realised. If so, this hope of the Iranian people to shape their own future bodes well for the world.

However, nationalisation also is not enough, certainly not in Persia. It still leaves too many trump cards in Anglo-Iranian hands, irrespective of the inconvenience it has caused to the company and Great Britain. The Persians cannot run the technically highly complicated refineries, they cannot ship and sell the oil, and it will take them longer to build up such a huge organisation than to go bankrupt.

Oil is an international product. A change of command in Persia may satisfy national aspirations, but it leaves all other questions unsolved. The Persian Government has already announced that, apart from the Anglo-Iranian's old customers who are charged world market prices, it will try to sell to the highest bidders. The oil combines, later, when the need arises, will certainly try to get the Persians in on any scheme which will protect the market. Nationalisation provides no conclusion to power politics in the oil world.

Something more will have to be done to bring in the consumer. He cannot be left simply to accept what oil prices and supplies are offered to him. For the whole matter is of too great importance to him. The cheaper oil can be sold, the more it will enrich peasants and farmers, factory workers and artisans on the shores of the seven seas. Be it government or private company, both tend to run the oil industry for their own benefit, either on an egocentric national basis, or, in the case of the oil combines, at the most as an international cartel. Only by taking the world wide consumer interest as the guiding principle for the development and exploitation of world oil resources, can a solution be found for this most troublesome commodity in international relations. On that basis alone will the terror of a Third World War be averted.

There is no way back. There can be no solution based on the old, insecure foundations. The Anglo-Iranian Oil Company cannot return to power in the oil fields of Iran. Nor is it enough to keep the fabulous resources out of the hands of the oil combines. The fact that British and American companies in Iraq, Saudi Arabia, and Kuwait can boost production immediately by 30 per cent so that Western Europe will have enough oil, is an equally inadequate solution as it will

only strengthen the hand of the world oil companies. The only valid question is "How do we remedy the causes of the conflicts?"

#### THE CO-OPERATIVE SOLUTION.

I am confident that the Iranian crisis this spring would not have developed had I.C.A.'s proposal for United Nations control of world oil resources been accepted early enough by the Economic and Social Council of United Nations. At Zurich in 1946, I.C.A. Congress delegates voted to emphasise "in the strongest terms the immediate need of placing control and administration of the oil resources of the world under an authority of the United Nations, and as a first step in that direction the oil resources of the Middle East, by and with the consent of the States involved." Two years later at Prague, I.C.A. again emphasised the necessity for immediate study of this matter by "a suitable organ or specialised agency within the framework of the United Nations."

Both proposals, the one suggesting administration and the other suggesting study, have been ably presented to UN's Economic and Social Council, of which I.C.A. is a permanent consultant. Three times these proposals have been voted down. On no occasion did a majority of the Council indicate that they were willing to come to grips with a problem so vast, so difficult, and so fraught with danger that its speedy solution may yet determine the question of peace or war.

I have reason to believe that a U.N. commission would have been welcomed by the countries of the Middle East. A billion dollar corporation in a foreign land comes to exercise virtual sovereignty over its investment, its employees, its contractors, and those who get its royalties. It becomes a law unto itself. It exercises extra-territoriality without the formality of treaty. This sovereignty cannot help but conflict with that of the nation itself. Tensions mount. The powder keg is ready for the fuse.

A U.N. commission would have provided an umpire, an arbiter for all manner of disputes, to whom any interested party might appeal. The workers, the companies, the nations, the oil customers in all parts of the world both actual and

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potential, would have some place to present their case. Even if the commission only had the power to study, report, and recommend, the Iranian crisis might have been avoided. For let us never underestimate the power of a forthright appeal to the conscience of mankind.

I.C.A.'s proposal did not contemplate nationalisation nor, indeed, any change in ownership or lease-holdings. It is as valid to-day as it ever was and still might prevent untold strife and bloodshed throughout the oil fields of the world.

If the Burmese Republic acts favourably on recommendations of its oil industry committee, United Nations will be asked to do for Burma exactly what I.C.A. proposed U.N. should do as far back as 1947. Burma produces 7 million barrels of oil a year. Three-fourths of this is produced and refined by the Burma Oil Company. Indio-Burma Petroleum Company and British Burma Petroleum Company account for another 22 per cent. These associated oil companies are more than merely foreign enterprises. They comprise a foreign power operating within the country. A conflict of interests, like that in Iran, may easily lead to international strife. Much the same sort of request for U.N. control of the oil resources of Indonesia seems to be brewing there.

#### THE WORK OF OIL CO-OPERATIVES.

Meanwhile co-operatives of the world continue to accumulate experience in producing, refining, transporting, and distributing oil and in working together through International Co-operative Petroleum Association, New York City.

In the United States where this experience has extended over the longest period of time, co-operatives are distributing 16 per cent of all the petroleum products used on U.S. farms—more than 1.4 billion gallons last year. These co-operatives have invested more than \$75 million in crude oil production, refineries, pipelines, trucks, barges, service stations, and bulk plants. Twenty co-operatively owned refineries have a through-put capacity of 145,000 barrels of crude oil a day. Together, large regional co-operatives in the United States own more than 2,000 wells and produce 35,000 barrels of

crude oil a day. They have under lease 425,000 acres—almost 700 square miles. Proved crude oil reserves, owned by co-operatives in the United States, total 32½ million barrels.

Largest of the group is Consumer Co-operative Association which pioneered 12 years ago in building the world's first complete co-operatively owned refinery out on the high plains of Kansas at Phillipsburg. To-day, the co-operative owns four refineries and has a one-third interest in a fifth. From its plant at Coffeyville, Kas., C.C.A. expects to ship 3,500,000 gallons of lubricating oil this year to members of I.C.P.A. This is a fourfold increase over 1950. This regional co-operative, owned by 1,400 local co-operatives in the heartland of America, owns 28 per cent of the crude oil needed to run its refineries and has call on an additional 20 per cent.

In research and plant development, C.C.A. has steadily kept pace with giant major oil companies that dominate domestic as well as foreign markets. To its lubricating oil plant has recently been added a \$2½ million dewaxing unit which every month turns out 1½ million gallons of oil stocks that are practically wax-free. Its four-year-old furfural unit for the removal of harmful naphthenes utilises farm waste products, like oat hulls and corn cobs, as the solvent agent.

These strides forward have been accompanied by developments in other countries. Co-operatives in Sweden have moved rapidly into the petroleum business since they started in October, 1945. Last year, they distributed 78 million gallons of petroleum-fuels. The auto, truck, and taxi owners' co-operative in Stockholm sold 20 per cent of all the gasoline distributed in the city last year, though it has six major oil company competitors.

The National Association of Swedish Oil Consumers (OK) was formed in 1945 by Kooperativa Förbundet and four other central co-operatives, representing farmers, auto-owners, and fishermen, to import, store, and distribute oil products. It has 600,000 barrels storage throughout the country, 50 transport trucks, 80 railroad tankcars, and has chartered five oil tankers with a total capacity of 50,000 tons. OK serves more than 1,000 retail outlets.

In Egypt, Co-operative Petroleum Association has asked permission to take over concessions relinquished last year by Standard Oil Company of Egypt and has offered to purchase oil drilling and pumping equipment on the site. Standard of Egypt, a wholly-owned subsidiary of Standard of New Jersey, drilled one 600-barrel-a-day well on this Sinai peninsula concession prior to passage in 1947 of a law forbidding any company other than those controlled by Egyptian nationals from carrying on crude oil development activities.

In Canada, oil co-operatives in the western provinces have played an important part in opening up vast new petroleum deposits. Some leasing and exploration activity in the field is already being undertaken jointly by U.S. and Canadian co-operatives, and other similar ventures will surely follow. The first co-operative refinery at Regina has been fully modernised in recent years.

Co-operative distribution of petroleum products is expanding in other countries—in Israel, Australia, and South Africa.

I.C.P.A. has grown remarkably, especially when currency difficulties and import restrictions, that have sprung up since World War II, are taken into consideration. Probably not in modern times has the free flow of goods in international trade been obstructed by purely artificial barriers to as great an extent as it is during the present era. No nation in the world is, in this respect, without fault. We fail, through no unwillingness of the world's people, to produce goods and services in universal demand. Nor does the difficulty lie in any reluctance of men and women to buy the products of other countries. We do not lack means of rail, water and air transportation. It is simply that the rulers of the exchange of mankind's goods have failed through their own incompetence and their own stubbornness—and they have all but abdicated. Free trade among the world's people on a co-operative basis—with the patronage refund following the product—is the one bright hope in this otherwise dismal picture.

I.C.P.A., during its fourth year of operation, has distributed more than a million dollars worth of petroleum products, largely to its member associa-

tions in 13 countries. This is a hopeful beginning—but only a beginning.

#### MY PROPOSAL TO PRESIDENT TRUMAN.

In my opinion the Iranian crisis has opened up a tremendous opportunity for co-operators around the world. We should, it seems to me, urge as persuasively as we know how, that the co-operative technique of doing business be used to effect a permanent solution in Iran.

The President of the United States has interested himself in the conflict between the Iranian Government and Anglo-Iranian Oil Company. He sent his special envoy to Teheran to assist in working out some sort of agreement. On the eve of Harriman's departure I urged the President to propose

- that Iran's right to nationalise its petroleum industry be recognised;
- that Anglo-Iranian Oil Company retain ownership of tankers and marketing facilities;
- that an international oil co-operative be organised to produce, refine, transport and market under long-term contract with Iran and A.I.O.C.;
- that the co-operative's directorate consist of three Iranians, three British and three representatives from consuming countries;
- that the co-operative pay fair royalties to Iran for crude oil;
- that the co-operative pay A.I.O.C. fair rental for use of its facilities outside Iran;
- that the co-operative extend to each consuming country the privilege of taking over operation of A.I.O.C. facilities within its borders after a reasonable length of time;
- that the co-operative pay out its earnings as patronage refunds to its customers in India, Pakistan, Australia and other consuming countries; and
- that capital for the co-operative be supplied by the International Bank for Reconstruction and Development.

Such an arrangement would be eminently fair to all—to producing and consuming countries alike. This international co-operative would export patronage refunds, right along with the product, thus reducing the cost of petroleum by those amounts. Some such price reduction is vitally needed if people

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who live in the under-developed areas of the earth are to expand their agricultural production. Cheaper gasoline, kerosene and fuel oil would aid tremendously in the establishment of local industries and the encouragement of native artisans. It would further the objectives of U.N.'s Food and Agriculture Organisation where present farm production is low and inefficient.

This proposal for co-operative production and marketing of Iranian oil would renew the faith of men and women throughout the consuming countries in free institutions. It may well serve as a significant example of what men of good will can do, working together, to control

those economic institutions upon which depends their daily bread. In any event, we must explore the possibilities. It might well be the task of I.C.P.A. to organise oil users in these consuming countries so that they are in a position to take over A.I.O.C. marketing facilities in their respective nations.

Co-operatives have a tremendous contribution to make in clearing the channels of international trade. We have in the present crisis a glorious opportunity to demonstrate the practicality of peace through economic justice. Let us plan together and work together more eagerly, more wholeheartedly, than we ever have in the past that this may be.

## THE SIGNIFICANCE OF MARKETING CO-OPERATIVES IN UNDER-DEVELOPED COUNTRIES FOR EUROPEAN CONSUMERS' CO-OPERATIVES

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1. Marketing co-operatives in Asia and the Far East have not developed to any appreciable extent. In most of these countries, co-operative credit societies were the first to be organised and consumer co-operatives came in their wake. Co-operative marketing societies have been organised only here and there; but none of them reached the proportions of some of the marketing societies in developed countries like the United States, Canada or Denmark to be in a position to enter the sphere of international co-operative trade. The need for marketing co-operatives, however, has been recognised in these countries. When their representatives met at the Technical Meeting on Co-operatives held by the Food and Agriculture Organisation of the United Nations at Lucknow (India) in October, 1949, they passed a resolution as follows:—

“Well organised co-operative marketing institutions would confer even greater benefits on the agricultural producer than do the credit institutions. The latter, by supplying cheap credit, may reduce interest

charges to the agricultural borrower, but a greater drain on his income than the exorbitant interest that the village money-lender charges is exploitation by the trader who gives the producer an inadequate share of the price of his produce. Moreover, the existence of a chain of middlemen in the marketing of agricultural goods considerably reduces the return to the producer. If such middlemen could be eliminated and a fair share of the price secured to the farmer, the additional income he would receive thereby would be of far greater benefit to him than a reduction of interest . . . This could be achieved through the organisation of co-operative marketing societies . . . It is to be borne in mind that the working of marketing societies is not so simple as the working of credit societies. The former institutions require men with special knowledge and special training to manage them successfully.

The meeting, therefore, recommends:—

(a) That both Governments and non-official co-operators in every member country should endeavour to build up a structure for marketing

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similar to that for credit, beginning with the primary village collecting centres and leading on to central marketing unions and apex marketing federations; and that Governments should help these institutions in the initial stages at least, with subventions, technical service and patronage.

(b) That with a view to implementing the above recommendation Governments should set up a special marketing division in the co-operative department in addition to other marketing staffs maintained separately."

#### THE POSITION IN INDIA.

2. Among the under-developed countries India has probably attempted more in the direction of marketing co-operatives than others. Some progress has been made in individual States like Bombay, Madras and the United Provinces, where marketing societies have been established for suitable areas composed of individual agriculturists and agricultural credit societies. They have all been federated into a provincial marketing society at Bombay, Madras and Lucknow respectively. The marketing societies in the United Provinces mostly relate to sugar-cane marketing. In 1947-48, they supplied about 17 lakhs of maunds of improved varieties of sugar-cane, which represents about 86.8 per cent of the total quantity of cane crushed by the factories in that State. In Bombay, these societies have established a reputation in cotton marketing, while in Madras all kinds of agricultural produce, chiefly ground-nuts and cotton, are handled. Madras has developed co-operative marketing under a scheme known as the "Controlled Credit Scheme." Under this scheme, the Central Co-operative Bank provides funds to agriculturists through agricultural credit societies situated in villages for raising crops such as cotton, ground-nuts, turmeric, paddy, potatoes, etc. The loans are given to the members of the credit societies, subject to the condition, that the produce raised with them should be delivered for sale through the nearest co-operative marketing society. One of the committee members of the credit society arranges to collect and transport the produce to the marketing society as soon as it is har-

vested in return for a small commission. The marketing society conducts periodically auctions of the produce of each member accumulated in its godowns. The highest bidder at the auction is given delivery of the produce after weighment by the society, on payment of cash, which is passed on to the owner of the produce through the agricultural credit society after deducting the cultivation loan advanced by the Central Co-operative Bank. Some of the more advanced marketing societies pool the produce of all the members, grade it according to recognised standards and auction it according to grades. They also maintain processing plants like gins, decorticators and rice-hullers. This system of co-operative marketing flourishes in market centres where the produce is sold out by the co-operatives on behalf of their members to local traders on most advantageous terms. It eliminates the village dealer to whom agriculturists sell their produce normally and the commission agent at the market centre through whom the village dealer usually disposes of the produce to the trader. It does not eliminate the trader himself and sell the produce to the exporter. Still less does it eliminate the exporter and consign the goods to the importer abroad. And yet, the largest gain to the agriculturist will accrue only by the elimination of the exporter who takes the largest margin in the chain of middlemen who handle commodities for export.

#### BEGINNINGS OF INTERNATIONAL TRADE.

3. In recent years some of the marketing societies in Madras, availing themselves of the controls enforced by Government, exported onions, turmeric, potatoes and chillies to consumer co-operatives in Ceylon. The producers in Madras obtained about 15 per cent higher prices for their produce under this system, while the consumers in Ceylon paid about 15 per cent lower prices for the commodities purchased by them. The elimination of the middlemen-exporter and the middlemen-importer accounted for this phenomenon. The traders in both countries protested against this intrusion of co-operatives into their realm. But co-operators of both countries realised the immense

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